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LEGACY SUPPORT SERVICES, LTD. d/b/a S2G

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

No. 07 CV 5568 JSW

JENS ERIK SORENSEN, as Trustee of
SORENSEN RESEARCH AND
DEVELOPMENT TRUST,

Plaintiff,

v.

DIGITAL NETWORKS NORTH
AMERICA, INC., a Delaware
corporation; LEGACY SUPPORT
SERVICES, LTD. d/b/a S2G; and DOES
1-100,

Defendants.

**DEFENDANT LEGACY'S REPLY TO
PLAINTIFF'S OPPOSING BRIEF TO
LEGACY'S MOTION TO SET ASIDE
ANY APPEARANCE OF DEFAULT
AND TO GRANT LEGACY THE SAME
ENLARGEMENT OF TIME TO
ANSWER AS DNNA**

Date: June 13, 2008

Time: 9:00 A.M.

Ctrm: 2, 17th Floor

Judge: Hon. Jeffrey S. White

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1 **I. INTRODUCTION**

2 Defendant Legacy Support Services (“Legacy”), by its Motion, has requested the
3 Court to grant an Order setting aside any appearance of default by Legacy in the current
4 litigation and giving Legacy the same enlargement of time to Answer as Digital Networks
5 North America, Inc. (“DNNA”).

6 In opposing Legacy’s Motion, Plaintiff Jens Erik Sorensen (“Sorensen”) has
7 suggested that Legacy’s Motion was filed in violation of the stay entered in this case
8 (Docket #39). Sorensen’s argument could hardly be more disingenuous. It was Sorensen
9 who “fired the first shot” by filing a motion for a partial lift of the Court’s stay order
10 (Docket #45). Legacy’s Motion was filed in response to Sorensen’s motion simply to
11 provide alternative grounds for maintaining the *status quo* in this case. In particular,
12 Legacy’s Motion demonstrates that, even if the Court were to lift the stay, there is good
13 cause for setting aside any default under Federal Rule of Civil Procedure 55(c). Thus,
14 regardless how the Court’s Time Extension Order (Docket #33) is interpreted, there is no
15 rational basis for placing Legacy on a different procedural footing than DNNA.

16 Good cause exists for setting aside any default because: (i) Legacy has a
17 meritorious defense of the patent’s invalidity, as evidenced by the statistically small chance
18 that Sorensen’s now-expired patent will be able to survive both on-going reexaminations
19 with all claims confirmed; (ii) Legacy did not engage in “culpable” conduct because
20 Legacy reasonably relied on the plain language of the Court’s Time Extension Order, the
21 reasonableness of which is supported by Sorensen’s own conduct; and (iii) Sorensen will
22 not be prejudiced; indeed, Sorensen has not even attempted to show that he will suffer any
23 legally cognizable prejudice.

24 Sorensen’s attempt to obtain a default against Legacy is a misguided effort to
25 circumvent the Court’s stay order and avoid litigating its case against Legacy on the merits.
26 This matter has been stayed since January pending reexamination of the patent-in-suit.
27 Legacy is not an absentee defendant, but is represented by counsel in this matter. If and
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1 when the stay is lifted and this litigation proceeds, Legacy intends to vigorously defend
2 itself. Legacy's co-defendant, DNNA, is not required to file an answer in this case until
3 after the stay has been lifted. Sorensen's request to lift the stay and enter a default serves
4 no proper purpose and should be denied.

5 **II. ARGUMENT**

6 **A. Any Alleged Appearance of Default by Legacy Should Be Set Aside**

7 Legacy is clearly not in default because the Court's Time Extension Order stated
8 that "Defendants need not answer or otherwise respond to plaintiff's amended complaint
9 unless and until ten (10) days after this Court enters an Order denying the Motion to Stay."
10 See Docket #33 at 2 (emphasis added). Sorensen disputes the plain language of the Court's
11 Time Extension Order. However, even under Sorensen's interpretation of the Time
12 Extension Order, Legacy has established that good cause exists under Federal Rule of Civil
13 Procedure 55(c) for setting aside any default. See Docket #52.

14 The "good cause" analysis considers three factors: (i) whether the party has
15 engaged in culpable conduct that led to default; (ii) whether the party has a meritorious
16 defense; or (iii) whether reopening default would prejudice opponent. *Franchise Holding*
17 *II, LLC v. Huntington Rests. Group, Inc.*, 375 F.3d 922, 925-26 (9th Cir. 2004). These
18 factors are disjunctive. *Id.* at 926. However, Legacy has established that each of these
19 factors weighs heavily in favor of setting aside any default. Moreover, the law is clear that,
20 where timely relief is sought and the movant has a meritorious defense, any doubt should be
21 resolved in favor of the motion to set aside the default so that the case may be decided on
22 its merits. *Mendoza v. Wight Vineyard Mgmt.*, 783 F.2d 941, 945-46 (9th Cir. 1986). The
23 Court's discretion is especially broad when entry of default, rather than a default judgment,
24 is being set aside. *Id.* at 945.

25 Sorensen's opposition argues that Legacy has not established the existence of a
26 meritorious defense. However, Sorensen's own reexamination statistics show otherwise.
27 See Docket #61-2 Ex. B. With two reexamination proceedings pending against Sorensen's
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1 patent, reexamination statistics indicate less than a 7% chance that the patent will survive
2 both reexaminations with all claims confirmed. Thus, the invalidity of Sorensen's patent is
3 not only a meritorious defense, but also the likely result of at least one of the now-pending
4 reexaminations.

5 Sorensen's arguments with respect to the other two factors are also meritless. With
6 respect to the "culpable conduct" factor, Sorensen cannot avoid the fact that Legacy
7 reasonably relied on the Court's Time Extension Order that facially applied to all
8 Defendants. With respect to the final factor, Sorensen has not even attempted to argue any
9 legally cognizable prejudice.

10 **(1) Legacy Has A Meritorious Defense**

11 Legacy has asserted the invalidity of Sorensen's patent as a meritorious defense.
12 *See* Docket #52 at 4-5. In addition, Legacy has presented the two on-going reexaminations
13 of the patent—in which the United States Patent and Trademark Office ("USPTO") found
14 more than 20 substantial new questions of validity—as evidence to back up Legacy's
15 invalidity defense. *Id.*

16 Amazingly, despite this evidence, Sorensen argues that Legacy's invalidity defense
17 is "unsupported." *See* Docket #61 at 7. However, Legacy is not required to prove its
18 invalidity defense at this stage of the litigation. Instead, Legacy needs only to demonstrate
19 facts or law showing that "a sufficient defense is assertible." *TCI Group Life Ins. Plan v.*
20 *Knoebber*, 244 F.3d 691, 700 (9th Cir. 2001) (quoting *In re Stone*, 588 F.2d 1316, 1319 n.2
21 (10th Cir. 1978)). Put another way, the relevant determination is "whether there is some
22 possibility that the outcome of the suit after a full trial will be contrary to the result
23 achieved by the default." *Hawaii Carpenters' Trust Funds v. Stone*, 794 F.2d 508, 513 (9th
24 Cir. 1986). The evidence of invalidity provided by the two on-going reexaminations of
25 Sorensen's patent easily meets that standard.

26 To try to downplay the significance of these reexaminations, Sorensen presents
27 reexamination statistics from the USPTO. *See* Docket #61-2 Ex. B. In particular, Sorensen
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1 seizes on the statistic that only 10% of reexaminations result in cancellations of all claims.
 2 *See* Docket #61 at 8. However, those same statistics also show that: 64% of the patents
 3 survived reexamination with claim changes; and only 26% of all reexamination certificates
 4 were issued with all claims confirmed. *See* Docket #61-2 Ex. B, ¶ 9. In this case, Sorensen
 5 cannot hope to survive reexamination by amending the claims because Sorensen's patent
 6 expired on February 5, 2008.¹ The USPTO's rules do not allow the claims of an expired
 7 patent to be amended in reexamination:

8 *No enlargement of claim scope.* No amendment may enlarge the scope of
 9 the claims of the patent or introduce new matter. **No amendment may be**
 10 **proposed for entry in an expired patent. Moreover, no amendment,**
other than the cancellation of claims, will be incorporated into the
patent by a certificate issued after the expiration of the patent.

11 37 C.F.R. § 1.530(j) (emphasis added).

12 Thus, Sorensen's only hope of prevailing requires that its patent will be one of the
 13 26% of patents that survive reexamination with all claims confirmed.² However, there are
 14 now *two* on-going reexaminations of Sorensen's patent. Assuming that each reexamination
 15 has a 26% chance of an outcome in which Sorensen's patent has all of its claims confirmed,
 16 then the probability that Sorensen's patent will survive both reexaminations with all claims
 17 confirmed would be *less than 7%*.³

18 When one takes into account the facts that Sorensen's patent has expired and two
 19 reexaminations are on-going, Sorensen's own reexamination statistics indicate that
 20 Legacy's invalidity defense is not only meritorious—it is a defense with a substantial
 21 likelihood of prevailing.

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25 ¹ *See* 35 U.S.C. § 154(a)(2).

26 ² It is theoretically possible that Sorensen's patent could survive reexamination by cancelling some claims but
 27 not others. However, Sorensen's claim chart purports to show infringement of only claim 1, the broadest
 28 claim. *See* Docket #12 Ex. C. If any claim were to be cancelled during reexamination it would be claim 1 (as
 the broadest claim), and such cancellation could well bring Sorensen's infringement allegations to an end.

³ As a matter of simple arithmetic, 26% of 26% is 6.76%.

(2) **Legacy Has Not Engaged In Culpable Conduct**

Sorensen's opposition suggests that the mere fact that Legacy received the Amended Complaint and did not answer shows that Legacy engaged in "culpable conduct." See Docket #61 at 8-9. That, however, is not the law:

[O]ne might think, reading this standard out of context, that a litigant who receives a pleading, reads and understands it, and takes no steps to meet the deadline for filing a responsive pleading acted intentionally in failing to answer, without more, and therefore cannot meet the culpability standard.

If that were our standard under Rule 60(b)(1), it would have to be revised after *Pioneer Investment* [507 U.S. 380 (1993)].

TCI Group, 244 F.3d at 697. A failure to answer is **not** necessarily "culpable" when there is a credible, good faith explanation that negates any intention to take advantage of the opposing party, interfere with judicial decision-making, or otherwise manipulate the legal process. *Id.* at 697-98. Instead, conduct is "culpable" when there is **no** explanation for a default inconsistent with a devious, deliberate, willful, or bad faith failure to respond. *Id.* at 698.

In this case, Legacy **has** a good faith explanation for why Legacy did not answer Sorensen's Amended Complaint. Legacy reasonably relied on the Court's Time Extension Order, which stated "Defendants need not answer or otherwise respond to plaintiff's amended complaint unless and until ten (10) days after this Court enters an Order denying the Motion to Stay." See Docket #33 (emphasis added); Docket #52 at 3-4.

Although Sorensen tries to attack the credibility of this explanation, Sorensen's own actions suggest that Sorensen similarly understood that the Court's Time Extension Order applied to Legacy. In its Opposition to DNNA's Motion for Stay, which was filed nine days after the Court's Time Extension Order, Sorensen specifically requested that the Court "require Defendants to respond to the Amended Complaint." Docket #34 at 11 (emphasis added). If Sorensen had believed that the Court's Time Extension Order applied only to DNNA, Sorensen would not have made this request because a Court order would not have

1 been required for Legacy to respond to the Amended Complaint. Thus, Sorensen's own
2 actions support Legacy's good faith explanation.

3 In addition, though Sorensen now contends that the reference to "Defendants" in the
4 Court's Time Extension Order is a typographical error, Sorensen made no attempt to correct
5 this purported error. In this regard, the Federal Rules of Civil Procedure provide for the
6 correction of typographical errors:

7 The court may correct a clerical mistake or a mistake arising from oversight
8 or omission whenever one is found in a judgment, order, or other part of the
9 record. The court may do so on motion or on its own, with or without
notice.

10 Fed. R. Civ. P. 60(a). However, Sorensen has not made any attempt to invoke Rule 60(a).
11 Sorensen's failure to do so is further evidence that Sorensen did not consider the
12 "Defendants" language in the Court's Time Extension Order to be a typographical error,
13 which further supports the credibility of Legacy's good faith explanation.

14 Legacy's reliance on the plain language of the Court's Time Extension Order can in
15 no way be deemed "culpable." To hold otherwise would be contrary to the integrity of the
16 legal process that the "culpable conduct" standard is intended to uphold.

17 (3) There is No Prejudice to Sorensen

18 Sorensen argues that he will be prejudiced if he is "not allowed to receive the
19 benefit of a default." *See* Docket #61 at 12. However, merely being forced to litigate on
20 the merits cannot be considered prejudicial for purposes of lifting a default. *TCI Group*,
21 244 F.3d at 701. Instead, the standard of prejudice is whether the plaintiff's ability to
22 pursue his claim will be hindered. *Id.* Sorensen has made no attempt to show any such
23 prejudice. Accordingly, this factor clearly weighs in favor of Legacy.

24 B. The Court Should Grant Legacy the Same Enlargement of Time to 25 Respond As DNNA

26 The parties have presented differing views regarding the Court's Time Extension
27 Order. However, there can be no dispute that the Court considered it to be in the interest of
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judicial economy to stay at least DNNA's requirement to respond to the Amended Complaint until the Court rules upon the Motion to Stay. *See* Docket #33 at 2. Sorensen has offered no valid reason why the interests of judicial economy would be served by a different outcome for Legacy. To the contrary, Sorensen has presented no evidence that he will be prejudiced by maintaining the *status quo* in this case. Because Sorensen will not be prejudiced in any legally cognizable way by placing Legacy and DNNA on the same procedural footing, Legacy respectfully requests the Court to issue an Order that makes clear that Legacy has the same time to respond to the Amended Complaint as DNNA.

C. Sorensen's Evidentiary Objections to the Declaration of Kurt W. Rohde are Wholly Without Merit

Sorensen filed an Evidentiary Objection to Mr. Rohde's Declaration (Docket #55-2) to which Defendants have previously responded (Docket #60). Sorensen has now filed a *second* Evidentiary Objection to Mr. Rohde's Declaration (Docket #61-4). For the most part, the Second Evidentiary Objection repeats the objections in the First Evidentiary Objection (to which Defendants have already responded). However, there is some new material. Having been shown that his objections have neither factual nor legal support, Sorensen has resorted to "pounding on the table." Specifically, Sorensen now suggests that Mr. Rohde should be questioned about the contents of his declaration. *See* Docket #61-4 at 2.

Sorensen's personal attack on Mr. Rohde's credibility is shameful. Moreover, it appears to be based on a mistaken assumption that Mr. Rohde drafted the Time Extension Order that the Court signed and entered:

"Reasonable reliance" on an out-of-context "s" that you personally put in a document relating to something else entirely should not be accepted on mere self-serving statement.

See Docket #61-4 at 2.⁴ However, Mr. Rohde's Declaration (Docket #53) does not state that Mr. Rohde drafted the document. Sorensen has simply invented this "fact" (and

⁴ Sorensen's opposition brief also refers to "a declaration of Legacy's counsel who drafted the Order with the inconsistent language and context." *See* Docket #61 at 12.

1 invented it incorrectly). As such, Sorensen's extraordinary request must be rejected out of
2 hand.

3 Sorensen has no basis for excluding the evidence of Legacy's reasonable reliance on
4 the plain language of the Court's Time Extension Order (Docket #33), the credibility of
5 which is buttressed by Sorensen's own actions. For the reasons set forth herein, and in
6 Docket #60, Sorensen's evidentiary objections should be overruled in their entirety.

7 **III. CONCLUSION**

8 The time has come for Sorensen to accept that this litigation has been stayed
9 pending reexamination of Sorensen's patent and to accept that the interests of judicial
10 economy are best served by waiting for the reexamination of Sorensen's patent to be
11 concluded before requiring any Defendant to respond to Sorensen's Amended Complaint.

12 Under the plain language of the Court's Time Extension Order, Legacy is not in
13 default. Even if Legacy were to be deemed in default, any appearance of default should be
14 set aside because: (i) Legacy has a meritorious defense of the patent's invalidity, as
15 evidenced by the statistically small chance that Sorensen's now-expired patent will be able
16 to survive both on-going reexaminations with all claims confirmed; (ii) Legacy did not
17 engage in "culpable" conduct because Legacy reasonably relied on the plain language of the
18 Court's Time Extension Order, the reasonableness of which is supported by Sorensen's

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own conduct indicating that Sorensen also considered the Court's Time Extension Order to apply to Legacy; and (iii) Sorensen will not be prejudiced.

Dated: May 30, 2008

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